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December 13, 2010

AGENDA ITEM 8a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** Consultant Review of Internal Corporate Governance Investments Program
- II. PROGRAM:** Global Equity
- III. RECOMMENDATION:** Information
- IV. ANALYSIS:**

Executive Summary

Wilshire Associates conducted a review of the internally-managed Corporate Governance Investment Program (Program). This review was conducted as part of Wilshire's contractual requirement to periodically review all of the internal asset management functions within CalPERS. The review of the Program included a review of personnel, investment process, external managers, and resources. Wilshire concluded that the Program is well managed, the investment approach is appropriate, staff has access to sufficient resources, and staff is aware of the risks and rewards associated with activist investing. Wilshire recommends the Investment Committee continue to support the program. A complete copy of Wilshire's review is included as Attachment 1. The Wilshire analysis discusses the following:

- Three main issues face the Program: 1) the new capital allocation model, 2) the alignment of interests between CalPERS and the Program managers, and 3) the outlook on where activist strategies can best add value.
- The performance of the Program over the last ten years has been exceptional – adding 5.2% of value on an annualized basis versus the Program's benchmark and adding 4.8% of value versus the total Global Equity benchmark over the same time period. Over the intermediate time periods (3 years and 5 years), the returns have been challenging as the Program has

underperformed the broader market in total. Performance has improved over the last couple of years following a challenging period in 2008.

- Wilshire's score on this strategy was 73% or 220 out of 300 possible points. This was higher than last year's score of 218. The largest detractors in Wilshire's score were turnover in senior level staff over the last few years along with staff's inability to own equity in the Program. Improvements would be expected as the holistic Global Equity strategy crystallizes with respect to the future role of this Program.

V. STRATEGIC PLAN:

This item will further the following goals of CalPERS Strategic Plan:

- Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.
- Goal IX: Achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

The costs associated with this item are assumed through the Wilshire Associate contract.

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Members of the Investment Committee
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